

Critical Analysis of “Attachment #1” presented by Jeffrey Phillips to the Budget and Planning Subcommittee of the Natick Finance Committee on 7/30/05

Voted and approved by the Natick Finance Committee by a vote of 11-0-1 on September 6, 2005

Mr. Phillips has made multiple allegations that the Town of Natick has overcharged water and sewer ratepayers for providing water and sewer services. On July 30, 2005, Mr. Phillips provided an analysis called “Attachment #1 Water and Sewer Fund Analysis” to the Budget and Planning Subcommittee of the Natick Finance Committee. Mr. Phillips used this analysis to support one of his allegations – namely that there was \$15.9 million of surplus revenue collected by the town as a result of excess water and sewer charges.

Mr. Phillips’ analysis is wrong. The analysis contains 3 mistakes which account for \$14.5 million dollars of the reported \$15.9 million change in the water and sewer surplus fund balance.

Mistake #1 – Adding appropriations instead of subtracting

On line 3 of his analysis, Mr. Phillips adds appropriations made from the water and sewer surplus to his calculation of revenue. Since the appropriations are expenditures of water and sewer surplus funds, they have the effect of reducing the water and sewer fund balance. These appropriations should be subtracted from the fund balance. Mr. Phillips makes the mistake of adding them instead of subtracting.

In addition, the appropriation numbers used by Mr. Phillips do not match Town records. Mr. Phillips has not provided any additional supporting documentation for his appropriation numbers.

This mistake explains about \$9.7 million of the alleged \$15.9 million change in fund balance of the water and sewer surplus fund.

Mistake #2 – Including the Natick Army Labs Settlement

In FY2002, on line 4, Mr. Phillips includes \$3.1 million from the Town’s settlement with the Natick Army Labs. The Natick Army Labs Settlement money was used for 2 purposes. \$2.4 million of the settlement was used to reduce debt associated with the improvements to the Springvale Water Treatment plant. The remaining \$0.7 million was placed in the Stabilization Fund. None of this money was placed in water and sewer surplus and it therefore had no impact on the fund balance.

This error explains \$3.1 million of the alleged \$15.9 million change in fund balance of the water and sewer surplus fund.

Mistake #3 – Incorrect Revenue and Estimate Numbers

Both Line 1 and Line 2 numbers do not match Town records. Line 1 numbers should be sourced from the actual values on the Tax Recap sheets.

Line 2 numbers do not match the total revenue numbers posted to the Water and Sewer Surplus accounts.

The difference between the numbers used by Mr. Phillips and the records provided by the Town amounts to \$1.8 million of the alleged \$15.9 million change in fund balance of the water and sewer surplus fund.

Actual Net Change in Water and Sewer Surplus Fund Balances FY98-FY02

The actual change in fund balance of the water and sewer surplus fund between FY98 and FY02 is \$1.4 million. Supporting documentation is provided in the attached sheets.

Summary of Mistakes in Mr. Phillips' Analysis

To summarize, Mr. Phillips' analysis has \$14.5 million of mistakes as shown in the table below:

(From Table 1) Summary Recap		
2E	Mistake #1 - Incorrect Water Revenue and Projection Numbers	1,857,627
3C	Mistake #2 – Adding appropriations instead of subtracting	9,549,651
4A	Mistake #3 - Including the Natick Army Labs Settlement	3,100,000
6A = (2E+3C+4A)		Total Mistakes 14,507,278
5A	Actual Net Change in Water and Sewer Surplus FY98-FY02	1,429,833
6B= (5A+6A)		Total of All Calculations 15,937,111

The actual change in water and sewer surplus accounts over the 5 year period is \$1.4 million.

Summary:

Mr. Phillips' allegations that excess water and sewer service fees have been accumulating over years to any number from \$13 million to \$15.9 million or even larger are false. The largest portion of Mr. Phillips' \$15.9 million estimate of the increase in water and sewer surplus is the result of a miscalculation – adding appropriations to the water and sewer fund balance instead of subtracting them from the balance.

Table 1 - Correction of Jeff Phillips' Attachment #1 as Presented to: Natick FinCom Budget Planning Subcommittee 7/30/05

Numbers in black are sourced from Mr. Phillips' Attachment #1 - ~~Strikethrough~~ indicates an incorrect number

Corrected numbers are in blue and sources are identified

Numbers in red are calculations of errors

		FY98	FY99	FY00	FY01	FY02
1	Water & Sewer User Charges (as reported by Town)	7,370,000	7,820,000	8,024,485	8,505,847	9,143,785
1A	CORRECTED NUMBERS	7,721,821	8,072,651	8,024,385	8,505,847	9,143,785
	Source: Tax Recap Sheets FY98-FY02					
2	Water & Sewer Collections	8,408,981	8,980,592	10,594,027	9,827,075	10,789,995
2A	CORRECTED NUMBERS	8,102,866	8,837,270	10,293,740	9,610,232	10,503,307
	Source: Water and Sewer Surplus Account Ledgers FY98-FY02					
2B = (2 - 1)	Mr. Phillips' calculation of Revenue collected in excess of projection	1,038,981	1,160,592	2,569,542	1,321,228	1,646,210
2C = (2A-1A)	Correct calculation of Revenue collected in excess of projection	381,045	764,619	2,269,355	1,104,385	1,359,522
2D = (2B-2C)	Error from calculations in Lines 1 and 2	657,936	395,973	300,187	216,843	286,688
2E	Subtotal of all Errors in this calculation	\$ 1,857,627				
3	Mr. Phillips' Appropriation Into Genl. Fund from "Surplus"	1,038,451	777,000	417,600	333,000	2,538,000
3A	CORRECTED NUMBERS (Note change of sign)	(458,000)	(555,000)	(343,600)	(2,225,000)	(864,000)
	Source: Water and Sewer Surplus Account Ledgers FY98-FY02					
3B = (3-3A)	Error introduced by adding appropriations to revenue	1,496,451	1,332,000	761,200	2,558,000	3,402,000
3C	Subtotal of all Errors in this calculation	\$ 9,549,651				
4A	Error introduced by adding in Natick Army Labs Settlement	\$ 3,100,000				
Table 2 - Lines 3C & 4 Actual Net Change in Water and Sewer Surplus Account		(77,314)	206,485	1,925,755	(1,120,615)	495,522
5A	Total Actual Changes FY98-FY02	\$ 1,429,833				
(From Above)	Summary Recap					
2E	Mistake #1 - Incorrect Water Revenue and Projection Numbers	1,857,627				
3C	Mistake #2 - Adding appropriations instead of subtracting	9,549,651				
4A	Mistake #3 - Including the Natick Army Labs Settlement	3,100,000				
6A = (2E+3C+4A)	Total Mistakes	14,507,278				
5A	Actual Net Change in Water and Sewer Surplus FY98-FY02	1,429,833				
6B = (5A+6A)	Total of All Calculations	15,937,111				

Table 2 - Analysis of Town of Natick Water and Sewer Surplus Fund Balance FY98-FY02

Lines in Black are as reported in Town Annual Reports

Lines in Blue are adjusted based on review of Water and Sewer Fund Ledgers. See Table 3 for explanations

Surplus Water and Sewer Revenue Calculation		FY98	FY99	FY00	FY01	FY02
1A	Water and Sewer Projections on Tax Recap Sheet (Source: Tax Recap Sheets FY98-FY02)	7,721,821	8,072,651	8,024,385	8,505,847	9,143,785
2A	Actual Water and Sewer Collections Source: Table 3 - W&S Revenue Analysis - Line A5 (as sourced from account ledgers)	8,102,866	8,837,270	10,293,740	9,610,232	10,503,307
3A = (2A-1A)	Surplus Revenue calculation	381,045	764,619	2,269,355	1,104,385	1,359,522
Net Change in Water/Sewer Fund Balance						
3B	Appropriations from Water and Sewer Surplus (Source: Town Annual Reports 1998-2002)	(458,000)	(555,000)	(343,600)	(2,225,000)	(864,000)
3C = (3A+3B)	Net Change in Water and Sewer Surplus	(76,955)	209,619	1,925,755	(1,120,615)	495,522
Calculated Water and Sewer Fund Account Balances						
4A	Water and Sewer Surplus Starting Balance (Source: Account Ledger FY98)	557,017	479,702	686,187	2,611,942	1,491,327
3C	Net Change in Water and Sewer Surplus	(76,955)	209,619	1,925,755	(1,120,615)	495,522
4B	MUNIS System Conversion (98/99 Adjustments)	(360)	(3,133)	0	0	0
4C = (4A+3C+4B)	Water and Sewer Surplus Ending Balance	479,702	686,187	2,611,942	1,491,327	1,986,849
Water and Sewer Fund Ledger Balance from Account Ledgers						
5A	Water Surplus Ending Balance (Source: Account Ledgers FY98-FY02)	273,369	630,809	1,244,817	481,856	610,505
5B	Sewer Surplus Ending Balance (Source: Account Ledgers FY98-FY02)	206,333	51,957	1,366,836	1,010,105	1,376,978
5C = (5A+5B)	Water and Sewer Surplus Ending balance	479,702	682,765	2,611,654	1,491,961	1,987,483
6A = (5C-4C)	Difference between ledger balance and calculated balance	0	(3,422)	(288)	634	634

Table 3 - Water and Sewer Revenue Analysis

Lines in Black are as reported in Town Annual Reports

Lines in Blue are adjusted based on review of Water and Sewer Fund Ledgers

Notes 1,2,3.... identify changes

		1998	1999	2000	2001	2002
A1	Water Rate Revenue	2,719,913	2,704,539	3,066,801	2,956,889	3,396,975
A1 rev	Revised Water Rate Revenue		2,701,744 ¹			
A2	Water Lien / Other	160,243	510,198	427,654	362,577	360,324
A3	Sewer Rate Revenue	4,978,654	5,397,039	6,268,689	6,014,708	6,433,456
A3 rev	Revised Sewer Rate Revenue		5,375,820 ²			
A4	Sewer Lien / Other	244,057	249,508	530,596	276,058	312,552
A5	Total Revenue	8,102,866	8,837,270	10,293,740	9,610,232	10,503,307
B1	Water Liens (Lines B1-B5)	98,326	84,202	144,707	88,504	34,220
B2	(Fiscal years on each line)	12,969	11,034	37,907	8,249	94,900
B3		5,994	3,292	18,598	286	11,562
B4		5,004	1,507	7,013	561	1,027
B5		0	0	0	0	274
B6	Water Flat Charges	0	0	0	52,903	0
B7	Water Service Charges	3,375	2,203	1,325	1,300	1,025
B7 rev	Revised Water Service Charges	26,710 ³	2,303 ⁴			
B8	Water Interest Added	11,240	11,387	19,778	12,538	19,081
B9	State Grant	0	198,236	198,326	198,236	198,236
B9 rev	Revised State Grant		396,472 ⁵			
A2 = (Sum B1-B9)	Subtotal Water Liens/Other	160,243	510,198	427,654	362,577	360,324
C1	Sewer Liens (Lines C1-C5)	167,671	216,655	346,963	225,887	251,665
C1 rev	New Sewer Liens		216,557 ⁶			
C2		35,943	16,679	95,471	22,754	30,663
C3		14,908	8,110	36,850	4,682	1,026
C4		18,139	2,609	18,944	1,141	132
C4 rev	New Sewer Liens		3,950 ⁷			
C5	Comm. Of Mass Debt Assist	0	4,212	3,967	3,722	0
C6	Sewer Interest Added	0	0	24,262	17,872	29,066
C7	Sewer Service Charges	0	0	4,140	0	0
C8	Vendor refund check	7,395				
A4 = (Sum C1-C8)	Subtotal Sewer Liens/Other	244,057	249,508	530,596	276,058	312,552

Changes from Town Reports

1	(2,796)	Difference in reported Water Rate Revenue due to refunds or amended collections
2	(21,220)	Difference in reported Water Rate Revenue due to refunds or amended collections
3	23,335	Munis System Conversion account reconciliation
4	100	Unknown
5	198,236	Two grants posted to ledger in 1999. FY98 grant shown in Town Report FY98 as Receipts Reserved. Posted to water ledger in FY99
6	(97)	Unknown
7	1,341	Unknown

Total Changes \$ 198,901

Sources: Town Annual Reports and Water/Sewer Account Ledger Sheets